Douglas County

Financial Policies

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Douglas County
Financial Policies

Purpose of Financial Policies

Primary among the responsibilities that Douglas County has to its citizens is the care of public funds and wise management of government finances while providing for the adequate funding of the services desired by the public and the maintenance of public facilities. These financial management policies, designed to ensure the fiscal stability of the Douglas County government, have been designed to provide guidance for the development and administration of the annual operating and capital budgets. These financial policies address revenues, operating budget, capital improvements, and accounting.

Financial Objectives

- To protect the policy-making ability of the County Commissioners by ensuring that important policy decisions are made proactively and are not dictated by financial problems or emergencies.
- To enhance the policy-making ability of the County Commissioners by providing accurate information on program costs.
- To assist sound management of the County by providing accurate and timely information on the County's financial condition.
- To provide sound principles to guide the important decisions of the County Commissioners and of management which have significant fiscal impact.
- To set forth operational principles which minimize the cost of government and financial risk.
- To employ revenue policies that prevent undue or unbalanced reliance on certain revenues, which distribute the costs of government services fairly, and which provide adequate funds to operate desired programs.
- To provide essential public facilities and maintain the County's infrastructure.
- To protect and enhance the county's credit rating and prevent default on any debt issue of the County.
- To insure the legal use of all county funds through a sound system of administrative policies and internal controls.

Achieving Financial Policy Objectives

To achieve and maintain the aforementioned objectives, the Finance Division, at the direction of the County Manager, will conduct an annual analysis of projected financial condition and key financial indicators. This analysis will be presented in the form of regular operating reports, special financial reports, and within the annual Adopted Operating and Capital budget document. This analysis will be reviewed by the County Manager and the County Commissioners prior to and during the budget process.

It is the focus of this analysis to:

a) Identify the areas where the County is already reasonably strong in terms of protecting its financial condition;

b) Identify existing or emerging problems in revenue sources, management practices, infrastructure conditions, and future funding needs;

c) Forecast expenditures and revenues for the next 5 years, with consideration given to such external factors as State and Federal actions, economic conditions, and management options based on best practices by other local governments;

d) Review management actions taken during the last budget cycle; and

e) Review County Commissioner actions taken during the last budget cycle.

Further, the prior year General Purpose Financial Statements, prepared through the required annual audit process, will also serve as a valuable resource to evaluate financial performance.

Revenue Policy

Section #1, Fund Balance

- To maintain the County's credit rating and meet seasonal cash flow needs, the budget shall target a designated fund balance of at least 8.3% of estimated annual operating expenditures for the General Fund and Special Revenue fund types. This designated fund balance shall be exclusive of all reserves not anticipated to be readily available for use in emergencies and contingencies.

- For funds other than the General Fund and Special Revenue fund types, the CFO/Comptroller shall analyze each fund to determine or verify the appropriate fund balance. The CFO/Comptroller shall take into account cash flow requirements, future capital needs, significant revenue and expenditure trends as well as reserve policies. The County Commissioners shall amend or approve the recommended appropriate fund balance through adoption of the annual budget.

- In the event the total fund balance is higher than an appropriate level, the difference may be used to fund the following activities:

  a) Designated reserves (i.e. equipment replacement); see "Reserves Policy"
  b) One-time capital expenditures which do not significantly increase ongoing County costs;
  c) Other one-time costs; and
  d) Ongoing or new County programs provided such action is considered in the context of Commissioners approved multi-year projections of revenue and expenditures.

- Generally, the fund balance levels are dictated by:

  a) Cash flow requirements to support operating expenses;
  b) Relative rate stability from year to year for enterprise funds;
  c) Susceptibility to emergency or unanticipated expenditure;
  d) Credit worthiness and capacity to support debt service requirements;
  e) Legal or regulatory requirements affecting revenues, disbursements, and fund balances; and
  f) Reliability of outside revenues.

If, at the end of a fiscal year, the fund balance falls below 8.3% of actual revenues in the General Fund and Special Revenue fund types, then the County shall develop a plan to restore the fund balance within the five-year planning period.

Section #2, Contingency

- As defined in NRS 354.506, a Contingency account is an account showing assets or other resources which have been appropriated to provide for unforeseen expenditures or anticipated expenditures of an uncertain amount.
- NRS 354.608 places a limit on the maximum amount that may be appropriated for such a contingency account. The limit is 3% of the money otherwise appropriated to the fund, exclusive of any amounts to be transferred to other funds.
- Therefore, to meet emergency conditions, the budget shall provide for an appropriated contingency of 1.5% to 3.0% of estimated annual operating expenditures. The General Fund and all Special Revenue fund types shall maintain a contingency. The contingency shall also be exclusive of reserves not anticipated to be readily available for use in emergencies or designated for of capital expenditures. Any unused contingency shall be carry-forward to the next fiscal year to fund that year's contingency requirement.
- Where correction of a fund balance deficit causes the contingency to fall below 1.5% of operating revenue, a gradual correction of the problem over a two or three year period is preferable to a one-time jump in rates or revenue commitment.

Section #3, Sources of Revenue

- The County will strive to develop and maintain a diversified and stable revenue system to shelter the government from short-run fluctuations in any one revenue source and ensure its ability to provide ongoing service.
- Restricted revenue shall only be used for the purposes legally permissible. Programs and services funded by restricted revenue will be clearly designated as such.
- Certain intergovernmental revenue (i.e. State and Federal Grants) shall be used to finance only those capital improvements that are consistent with the capital improvement plan and local government priorities, and whose ongoing operation and maintenance costs have been included in operating budget forecasts. Intergovernmental revenue or grants that are restricted for specific operating purposes will be expended consistent with those restrictions.

Section #4, Revenue Collection

- The County shall manage its revenue collections through a policy that actively pursues collection of all revenues owed to the County.

Section #5, Fees-Licenses, Permits & Misc. Items

- All fees for licenses, permits, fines, and other miscellaneous charges other than Parks & Recreation fees shall be set to recover the county's expense in providing the attendant service. These fees shall be reviewed and reported to the Commissioners on a regular basis. Fees regulated by State law shall be set accordingly. A Revenue Manual listing all such fees and charges of the County shall be maintained by the Finance Division and updated as needed.

- Fees for the direct costs of containment and cleanup of hazardous materials will be assessed to the responsible party for all hazardous material responses by the county or EFFPD.

- Utility user charges for each of the county utilities will be based on the cost of providing the service (i.e., set to fully support the total direct, indirect, and capital costs) and established so that the operating revenues of each utility are at least equal to its operating expenditures, reserves, debt coverage and annual debt service obligations.

- Staff shall conduct a comprehensive rate review on a regular basis for water, wastewater and any other utility funds for Commissioners review.

- The Community Services/Park and Recreation Department will strive to recover costs by generating revenues through special programs, special recreation levies, fees, charges and donations. Fees and charges shall be assessed in an equitable manner in accordance with the Department's Programs and Facilities Manual.

- The Community Services/Park and Recreation Department shall conduct a regular comprehensive review of rates. The Park and Recreation Commission and the Senior Services Advisory Council shall recommend any alterations or adjustments necessary in specific fees and/or charges to reflect service demand changes, and the ability of users to support the demand.

- Through an aggressive volunteer recruitment program, the Community Services/Park and Recreation Department shall seek to minimize the subsidy required for partial and minimum fee support programs.

- Solicitation of funds through donations, fund raising events, non-traditional sources, and various other modes shall be encouraged by the Park and Recreation Commission and the Senior Services Advisory Council. Funds donated for any special purpose shall be earmarked for that purpose.

Section #6, Grants

- The County shall aggressively pursue all grant opportunities; however, before accepting grants, the County will consider the current and future administration and operating requirements and implications of either accepting or rejecting the monies.
- In reviewing grants, the Department Director and CFO/Comptroller shall evaluate each grant offer and make their recommendation to the County Manager after considering:
    a) The amount of the matching funds required;
    b) In-kind services that are to be provided;
    c) Length of grant and consequential disposition of service (i.e., is the County obliged to continue the service after the grant has ended); and
    d) The related operating expenses including, administration, record keeping, and auditing expenses.
- The Board of County Commissioners shall approve acceptance of grants.

Section #7, Donations and Bequests

- Gifts, donations and/or bequests given to the County for the use of any of its departments or divisions and accepted shall be used solely for the purpose intended by the donor. Unrestricted gifts will be expended on the recommendation of the County Manager, Elected Official or related advisory board, if applicable
- Gifts and donations will be evaluated to determine what, if any, obligations are to be placed upon the County. Gifts and bequests will be considered as "over and above" basic County appropriations.
- "Gift Fund" expenditures shall carry the approval of the related advisory board before execution by county staff.
- Gifts, donations and bequests shall be audited in accordance with County accounting principles.

Section #8, Federal Funds

- Federal funds shall be actively sought. The county will use these funds to further the applicable stated national program goal. Because Federal funds are not a guaranteed revenue source and are intended for a specific purpose, they will not be relied upon as an alternative source for ongoing operating funds unless specifically approved.
- Use of one-time funds should generally be designated for one-time expenditures such as capital improvement projects.
- Use of Federal funds shall not have a negative effect on the General Fund.

Section #9, Transfers

- To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenses shall revert to the General Fund's fund balance, unless Commissioners direct the transfer to be used for other purposes.
- Intra-fund and inter-fund transfers shall follow State of Nevada requirements, as outlined in NRS 354.606 and 354.6117.

Operating Budget Policy

Section #1, Structurally Balanced Budget

- The County shall maintain a structurally balanced budget, where recurring revenues equal or exceed recurring expenditures. The County shall balance recurring operating expenditures with recurring revenues reasonably expected to continue year to year.

- Recurring expenditures are operating costs that are funded each year, such as, salaries, benefits, services, supplies and asset maintenance costs. Non-recurring expenditures are one-time costs such as acquisitions of capital assets.

- Property taxes are an example of recurring revenue, while a settlement from a lawsuit is an example of non-recurring revenue. Revenues that have both recurring and non-recurring components require judgment in determining how much of the source is truly recurring. For example, building permit revenues rise in a period of high growth in the community, but can be volatile as economic conditions change. The County will review its revenue portfolio to identify revenues with potentially volatile components and avoid over reliance on these revenue sources in its budget projections.

- The County shall maintain reserves at their desired policy levels. Using reserves to balance the budget shall only be considered in the context of a plan to return to structural balance. The plan to return to structural balance must include a specific length of time for replenishing the fund balance and remediating the negative impact of any other short-term balancing actions that may be taken.

Section #2, Pay-As-You-Go

- The County shall conduct its operations from existing or foreseeable revenue sources. Achieving pay-as-you-go funding requires the following practices: current direct and indirect costs for operations and maintenance will be controlled and will be funded with current revenues and sound revenue and expenditure forecasts will be prepared annually for all operating funds as part of budget discussions.
- The County shall prepare a full Cost Allocation & Recovery Plan annually to provide accurate, complete estimates of indirect service costs. The Plan will be updated during budget development.
- Costs attributable to mandates of other governmental agencies shall be included in the annual budget.

Section #3, Budget Performance Reporting

- The CFO/Comptroller shall submit regular operating reports to the County Manager comparing actual revenues and expenditures with budgeted revenues and expenditures.
- Where practical, the County shall develop and employ performance measures to be included in the budget.

Section #4, Maintenance, Repair & Replacement Goals

- As a goal, all equipment replacement and maintenance needs for the next five years will be projected and the projection will be updated each year. A maintenance and replacement schedule based on this projection will be developed and potential funding sources identified.
- Replacement of capital outlay items shall be planned to increase efficiency and productivity considering the availability of funds. When possible, replacement plans shall be timed at fairly stable intervals so as not to spend excessively in one year and restrictively in the next.

Section #5, Maintenance of Capital Assets

- The budget should provide sufficient funds for the regular repair and maintenance of all Douglas county capital assets. The budget should not be balanced by deferring these expenditures.
- Future maintenance needs for all new capital facilities will be identified during the Capital Improvement Program process. Significant maintenance and operating cost increases or decreases will be reflected in the five-year financial plans.

Section #6, Personnel Services

- The County shall strive to pay competitive market rates of pay and benefits to its employees. This is balanced against the County's ability to fund short and long-term costs and maintain quality public services.
- The County shall conduct a comprehensive total compensation survey of public sector employers as necessary and this survey shall be the basis for determining prevailing market rates.
- The County's work force, measured in FTE (full time equivalent) shall not fluctuate more than 3% annually without corresponding changes in service levels or scope.
- In establishing pay rates a cost analysis of rate increases will be conducted and shall include the effect of such increases on the County's share of related fringe benefits and unfunded liabilities (including non-salary related benefits).
- Long-term costs of changes in benefit packages shall be estimated and fully disclosed to the county Commissioners before negotiated labor agreements are affirmed.
- No new personnel should be included in the base budget.

Section #7, Services & Supplies

- Total departmental Services & Supplies budgets are not to increase from the current year's total adopted budget. If an increase to an account is needed, department's should try to reduce a subsequent account's budget by the same amount. Requests to increase the total adopted budget above the prior fiscal years levels are to be made via a memorandum sent to the County Manager outlining and justifying the request.

Section #8, Capital Projects

- Capital Outlay items should not be included within the General Fund. If funding is available, these items may be funded from savings in other accounts at the end of the fiscal year or with adjusted opening fund balance at mid-year. Requests to include/increase Capital Outlay budget above the prior fiscal year levels are to be made via a detailed memorandum explaining the obligation and/or circumstances.

- For funds other than the General Fund that budget Capital Outlay expenditures , a detailed explanation should be provided in the narrative portion of the budget and included in the 5- year Capital Improvement Plan

Section #9, Use of Interest on Investment Earnings

- The amount of interest on investment earnings fluctuates depending on both the interest rate and the amount invested. It is not advisable for the County to rely on this source of revenue to fund ongoing operations given the significant fluctuations in interest earnings. Therefore, the amount of interest earnings that can be budgeted to fund operations for the next fiscal year is limited to the estimated interest earnings that would be generated from the lowest interest rate and lowest investment amount in the preceding five fiscal years by fund. Any amount in excess can only be used to fund one-time purchases or placed in an appropriate reserve account for future one-time purchases.

Capital Improvements Policy

Section #1, Capital Improvement Plan

- A five-year Capital Improvement Plan shall be developed and presented annually by staff to the Commissioners. This plan shall contain all capital improvements from all funds and departments of the county. The first year of the plan shall reflect the next year's capital budget.
- A high priority shall be placed on repair or replacement of capital assets when such items have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively affecting property values, and/or are no longer functionally serving their intended purposes.
- Capital improvements constructed in the County shall be based on construction standards that minimize construction costs, while assuring that accepted useful life and minimum maintenance costs will result.

Section #2, Intergovernmental Assistance

- Certain intergovernmental revenue (i.e. State and Federal grants), specifically approved for capital projects by the grantor agency, shall be used to finance only those capital improvements that are consistent with the capital improvement plan and local government priorities, and whose operations and maintenance costs have been included in operating budget forecasts.

Section #3, Operations and Maintenance Goals

- As a goal, standards of maintenance to adequately protect the County's capital investments shall be developed and periodically updated. The annual budget should be prepared to meet established maintenance schedules.
- Future operating budget impacts for new capital facilities will be analyzed as part of considering a proposed capital project, in accordance with State law.

Section #4, Financing

- Within the limitations of existing law, various funding methods may be used to finance capital improvements, including pay-as-you go funding and debt financing when appropriate. Capital improvement projects proposed for inclusion in the budget will be accompanied by a financing plan utilizing appropriate revenue sources, and in accordance with the County's debt management policies.

- Upon completion of capital projects, the CFO/Comptroller shall certify any unspent funds from the project. The most restrictive project revenues shall be used first so that unused funds will have the fewest restrictions on future use. Unspent capital project funds, except bond funds, shall be returned to their original source. If there are unspent funds from a bond issue, those monies will be allocated according to stipulations in the bond indenture.

- Interest earnings from capital improvement financing sources shall be separately accounted for within the capital construction fund and will be allocated to capital projects as a funding source through the CIP process unless otherwise dictated by grant or bond requirements.

Procurement Policy

Section #1, Authority

- The Nevada Revised Statutes authorizes the Commissioners to "...expend money for any purpose which will provide a substantial benefit to the inhabitants of the County."
- The Nevada Revised Statutes assign the responsibility for all procurement actions and the expenditure of such funds to the governing body.
- The County Manager may, with the approval of the Commissioners, retain such assistants and other employees as are necessary to the proper functioning of his office.
- Under the Nevada Revised Statutes, the Commissioners may designate "authorized representatives" including the County Manager and such assistants and employees with the authority and responsibility to perform procurement actions.

Section #2, Purchasing Policy and Practice

- The Douglas County purchasing function is a decentralized operation in which each department is permitted to purchase the goods and services needed to accomplish its mission in accordance with applicable laws, policies and procedures, and requisite approvals.
- The Board of County Commissioners have delegated to the County Manager, Department Directors and Elected Officials the authority to manage and administer the purchasing function within established guidelines, policies and state law.

Section #3, Review and Approvals

- The expenditure of funds for procurement will be in accordance with County budget policies and procurement policy #300.19
- The Commissioners must approve all leases involving County real property and equipment

Accounting Policy

Section #1, Accounting System, Standards, and Financial Reporting

- The County's accounting and reporting system shall demonstrate the following characteristics:
  a) Reliability, accuracy, consistency, timeliness, efficiency, responsiveness; and
  b) Be in conformance with all legal requirements.

- The County's accounting system and its financial reporting practices shall be maintained in such a way so as to conform to generally accepted accounting principles (GAAP) and with the requirements of the Governmental Accounting Standards Board (GASB).

- The County shall provide for an independent annual audit of its financial statements, by a qualified Certified Public Accounting firm. Each annual audit must be concluded and the auditor's report submitted to the governing body no later than five months after the close of the fiscal year.

- The County shall publish the auditor's report together with the financial statements and present this report in a public meeting of the governing body held not more than thirty days after the report is submitted to it. The General Purpose Financial Statements shall include but not be limited to:
  a) An explanation of the nature of the reporting entity,
  b) A management's discussion of the financial results of the activities conducted by the County,
  c) Comparison of actual activity to final budget,
  d) An explanation of the County's fiscal capacity,
  e) Disclosure of short and long term liabilities of the County,
  f) Capital assets reporting,
  g) Cash policies and compliance reporting, and
  h) Accounting policies, controls and management responsibilities.

  It is the County's objective that the financial statements receive an unqualified opinion from the independent auditors each year.

- Accounts receivable due to the County shall be recorded in accordance with GAAP and delinquent accounts pursued in accordance with administrative policies.

Section #2, Fund Structure

- The County shall establish, by Commissioners resolution, and maintain only those funds that are necessary by law and for sound financial administration. Each fund shall be structured in a manner consistent with GAAP, to maximize the County's ability to audit, measure and evaluate financial performance. The fund structure will be reviewed annually and recommendations for changes to improve compliance with Commissioners policies, financial planning, and resource allocation and service delivery by the CFO/Comptroller will be made to the County Manager as necessary.

Governmental Funds
Reserve Policy
Existing Reserves

Section #1, Unappropriated Reserve

- This reserve is the County's unrestricted fund balance. There is no reserve level established for this account, although it is recommended that these reserves are intended for specific needs, such as planned capital projects.

  Funds: General Fund, Special Revenue Funds, Capital Project Funds

Section #2, Board Designated

- This reserve is located in the capital section of the budget in the line item Board Designated. It is part of the County's unrestricted fund balance in the General Fund and Special Revenue Funds. Per NAC 354.410, local governments cannot augment a general fund or special revenue fund budget using reserves. Board Designated allows the county to use reserves for specific needs during the year as outlined in the adopted budget.

  Funds: General Fund and Special Revenue Funds

Section #3, Interfund Loan Reserve

- This reserve is to provide cash flow for larger capital projects in the County's Capital Project and Enterprise funds, until reimbursable funding sources are requested and received. Use of these funds are by resolution for temporary (less than a year) loans approved by the Board of County Commissioners per NRS 354.6118

  Funds: General Fund

Section #4, Equipment Reserves

- These reserves are set aside for future equipment replacement. The types of equipment that these reserves may replace include computer-related hardware and software, telephone systems, radios, appliances, HVAC, pumps, etc.

  Funds: Room Tax Fund, 9-1-1 Fund, County Construction

Section #5, Loss Provision Reserves

- These reserves are for claims in excess of the County's property and liability coverage and/or uncovered claims. The recommended level for these reserves is 5 -7 years' worth of deductible and non-covered claims.

  Fund: Risk Management Fund

Section #6, Unemployment Reserves

- These reserves are to cover the County in the event of a large scale reduction in force or an excessive amount, and duration, of paid unemployment benefits.

  Fund: Risk Management Fund

Section #7, Unfunded Liabilities Reserve

- These reserves are to cover unfunded liabilities, such as pension and other post-employment benefits. The County shall perform analysis of these unfunded liabilities as necessary to determine the appropriate level of reserve. This reserve is currently at $500,000.

  Fund: Risk Management Fund

Section #8, Operating Reserve

- These reserves are established in the County's Internal Service Funds to provide cash flow for operations or to meet decreases in anticipated revenues or increases in service delivery costs.

    - For the Risk Management Fund, operating reserves are established to ensure the continuation of risk management programs

    - For the Self Insurance Dental Fund, operating reserves were established to provide a method to keep rates (i.e. monthly charges for County services) stable between rate studies/increases. Reserves are created when rates (charges) generate revenues in excess of expenses and used when rates (charges) generate revenues less than expenses – thus requiring a rate increase.

    - For the Vehicle Maintenance/Motor Pool Fund, operating reserves are established to ensure that adequate funds are available to ensure the County's fleet of vehicles and equipment are properly maintained and the delivery of County services are not interrupted.

Funds: Risk Management Fund, Self- Insurance Dental Fund and Vehicle Maintenance/Motor Pool Fund

Section #9, Vehicle Replacement Reserves

- These reserves are established in the County's Vehicle Maintenance/Motor Pool Fund to set aside funding for the replacement of County vehicles. Reserve levels are determined by the planned timing of vehicle replacements with annual charges to funds used to build reserves for future replacement.

Fund: Vehicle Maintenance/Motor Pool Fund

Section #10, Bond Reserves

- These reserves are comprised of the unspent proceeds of bonds (debt), including related interest earnings. Bond proceeds and the interest earned on these proceeds are maintained in restricted accounts until expended.

Fund: Ad Valorem Capital Projects Fund and other funds when debt is issued

Section #11, Extra-ordinary Maintenance Fund Reserves

- This reserve is set aside specifically for extraordinary maintenance, repair or improvement of facilities and equipment Repairs, maintenance or improvements should not be incurred more than once every five years to maintain operating condition. The Extraordinary Maintenance Fund was established in FY98-99 under NRS 354-6105.

  Funds: Extra-ordinary Maintenance Fund

Section #12, Stabilization Fund Reserves

- This reserve is set aside only for expenses incurred as a result of a natural disaster causing severe damage to property or injury to or the death of persons. The balance in this fund may not exceed 10 percent of the expenditures from the general fund for the previous fiscal year. This reserve was established under NRS 354-6115.

  Funds: Stabilization Fund

Section #13, Eastside Reserves

- This reserve is set aside for the development of the eastside of the airport. As part of the airport operations, the airport will contribute at least $80,000 annually to this reserve.

  Fund: Airport Fund

Section #14, Part Tire/ Inventory Reserves

- This reserve represents the value of parts inventory held in stock at the end of the previous fiscal year. A physical inventory county is taken at each fiscal year end and the value of the inventory on hand is adjusted using average cost basis.

  Fund: Motor Pool/ Vehicle Maintenance Fund

Debt Management Policy

Section #1, General Policies

- The County will conduct its debt management functions in a manner designed to maintain or enhance its existing credit ratings. Effective communication will continue with bond-rating agencies concerning the County's overall financial condition.

- Debt issuance will be utilized by the County only in those cases where public policy, equity and efficient use of limited resources favor debt over cash financing. Decision criteria considered shall include the following:

  (a) Debt shall be self-supporting whenever possible. Self-supporting is the use of revenue bonds, special assessments, or other capital improvement charges. This may include dedicated tax revenue approved by the voters.
  (b) Debt shall be primarily used to finance capital projects with a relatively long life expectancy, i.e., ten (10) years or greater.
  (c) Debt shall be issued in such a way so that the term of the financing does not exceed the useful life of the asset.
- Debt issued for water, sewer and other purposes for which operating and capital needs are supported by user fees shall be in the form of revenue bonds secured by the appropriate user fees. User fees shall be adequate to support operating requirements and revenue bond covenants for each purpose (i.e. water user fees support only water and sewer user fees support only sewer).

Section #2, Management

- It shall be the responsibility of the Chief Financial Officer and his/her staff to maintain all necessary files associated with the issuance of county debt to ensure proper accounting, timely payment of debt service and compliance with debt covenants and continuing disclosure requirements

- The County Manager shall review the fiscal impact of any new debt before Commissioner Action to authorize a project involving the issuance of debt. The fiscal impact review should include, at a minimum, an estimate of the debt service to be required at the time of long-term debt issuance and a calculation showing the impact of this additional cost. The fiscal impact review shall provide information on any projected user fee rate increases in the case of revenue bond financing.

Enterprise Fund Policies

Section #1, General Policies

- It shall be the policy of Douglas County to establish enterprise funds for all County owned utilities and, to the extent possible given rate considerations, fully recover all direct and indirect costs under its control through user fees, connection fees and related charges. The goal is for each utility to establish water user rates, connections fees and related charges sufficient to provide for payment of general operations and maintenance expenses, capital improvements, annual depreciation, annual debt service, and to establish and maintain reserves necessary to ensure the financial stability of each fund. The Board may utilize other available funding sources in accordance State law to assist the enterprise funds with operating and capital needs to keep rates at levels deemed acceptable to the Board.

- Cash reserves are a necessary and appropriate part of prudent utility management practices. The County maintains separate accounting for operating, capital, and other cash reserves, as described below. Reserve levels are established for each type of reserve.

Section #2, Operating Reserve

- Operating reserves provide a cushion to ensure sufficient working capital to meet daily and periodic expenses. Reserve levels are generally expressed in number of days of cash operating expenses, with the minimum requirement varying with the expected risk of unanticipated needs. The funding level shall be a minimum of 60 days with a goal of 90 days (25%) of annual O&M expenses.

Section #3, Capital Project Reserve

- Capital reserves hold capital-related revenues (such as connection charge revenue), and transfers from the operating fund designated for capital construction projects. The capital reserve is intended to mitigate the impact of unanticipated capital costs on rates. The County's goal is to fund the capital reserve at 2.0% of the total (original) cost of utility capital assets.

Section #4, Emergency Reserve

- Emergency reserves provide funding for minor equipment failures. These reserves are not intended to cover the costs of system-wide failures resulting from catastrophic events; a more common practice is to carry insurance for such purposes. The minimum balance will be $50,000 with a goal of $75,000.

Section #5, Debt Proceeds Reserve

- Debt proceed reserves provide for the unspent proceeds of the debt, including related interest earnings. Debt proceeds and the interest earned on these proceeds will be maintained in restricted accounts until expended.

Section #6, System Replacement Reserve

- System replacement reserves (annual depreciation) provide for the replacement of aging and failing infrastructure to ensure sustainability of the system for ongoing operations. Consistent with common industry practice, the County uses depreciation expenses as the benchmark for the appropriate level of funding from rates. Annual depreciation is a non cash expense intended to recognize the consumption of utility assets over their useful lives. Collecting the amount of annual depreciation expense through rates helps to ensure that existing ratepayers pay for the use of the assets serving them (rate equity), with cash flow funding a portion or all of the eventual replacement of those assets.

- It is not appropriate to use system replacement funds received from existing customers for system expansion. Funds for the expansion of the system should come from contributed capital from new development, connection fees, assessments or other sources so that those benefiting directly from the improvement contribute the funds for its construction.

- For all existing assets, the County's goal is to fund system replacement at 20% annually until 100% of annual depreciation expense is funded. Annual depreciation funding for new assets will be 100% from the date of system acquisition or acceptance (notice of completion of offer of dedication).

Section #7, Debt Service Coverage

- The coverage test is based on a commitment made by the County when issuing bonds. Annual coverage equal to or above the debt service payment is a requirement of bond issues and some other long-term debt. Failure to comply with minimum annual coverage requirements can lower the County's bond rating and jeopardize its ability to sell revenue bonds in the future. Higher coverage levels can result in more favorable bond terms.

- The minimum required coverage factor assuming debt financing through the Nevada State bond Bank is 1.0 – meaning no additional cushion above the level of annual debt service is required. However, the County's goal is to set rates sufficient to maintain a coverage factor of at least 1.23. This practice enhances the County's creditworthiness and improves its financial position should the County ever require debt financing from selling its own revenue bonds, which typically require a factor around 1.25 to 1.35. Excess revenues generated to meet the internal policy can be used to fund capital projects or to help build other under-funded reserves.

Section #8, Rate Making Policy and Procedure

- Each year in January the Public Works Director and staff shall present a report to the Douglas County Board of County Commissioners detailing the prior fiscal year's actual revenues and expenses in each of the enterprise funds. This report shall address the fiscal condition of the fund and make recommendations to the Board for changes in rates to achieve the stated financial policies. Any rate changes shall be heard at public hearing in February of that year with implementation effective July 1 of the new fiscal year.

Section #9, General Authority

- Nothing contained within this policy prohibits the Board of County Commissioners from deviating from the County's financial policies and funding goals, as they find reasonably necessary, to address economic conditions as part of any rate-setting process provided, however, any change does not violate state law, existing bond or loan covenants, or generally accepted accounting practices.